

Message Text

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FM SECSTATE WASHDC

TO AMEMBASSY LAGOS PRIORITY

C O N F I D E N T I A L STATE 197833

FOR: THE HONORABLE ARTHUR F. BURNS, CHAIRMAN FEDERAL
RESERVE BOARD: C/O AMBASSADOR JOHN E. REINHARDT

SE.O. 11652: GDS

TAGS:

THE UNEMPLOYMENT RATE WAS UNCHANGED IN SEPTEMBER AT 4.8 PER CENT, SEASONALLY ADJUSTED. A LARGE GAIN IN TOTAL EMPLOYMENT WAS MATCHED BY A SIMILAR ADVANCE IN THE CIVILIAN LABOR FORCE. UNEMPLOYMENT RATES FOR MOST LABOR FORCE GROUPS SHOWED LITTLE CHANGE OVER THE MONTH. NONFARM PAYROLL EMPLOYMENT ROSE BY 190,000 IN SEPTEMBER WITH MOST OF THE INCREASES IN SERVICE-TYPE INDUSTRIES, FOLLOWING A COMPARABLE GAIN IN AUGUST. THE AUGUST FIGURE WAS REVISED DOWN BY 100,000. MANUFACTURING EMPLOYMENT WAS ABOUT UNCHANGED IN SEPTEMBER. THE FACTORY WORKWEEK, HOWEVER, LENGTHENED BY 0.4 HOURS TO 40.9 HOURS, AND OVERTIME HOURS ROSE BY 0.1 PER CENT IN SEPTEMBER WITH INCREASED WIDESPREAD AMONG DURABLE AND NONDURABLE GOODS INDUSTRIES. THE STRENGTH OF THIS INCREASE IN MANHOURS SUGGESTS THE BOARD'S INDEX OF INDUSTRIAL PRODUCTION WILL BE UP FOR SEPTEMBER.

OVER THE PAST THREE MONTH THE NONFARM HOURLY EARNINGS INDEX HAS BEEN RISING AT A 7 PER CENT ANNUAL RATE, COMPARED TO A 6.3 PER CENT RATE IN THE PRECEDING NINE MONTHS.

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TOTAL RETAIL SALES IN THE WEEK ENDING SEPTEMBER 29 WERE

10 PER CENT ABOVE A YEAR AGO AND IN THE LATEST 4 WEEKS THEY WERE 11 PER CENT ABOVE A YEAR EARLIER. FOR SEPTEMBER AS WHOLE, SALES OF DOMESTIC AUTOS ARE TENTATIVELY ESTIMATED AT A 10.6 MILLION UNIT ANNUAL RATE, COMPARED WITH A 9.7 MILLION RATE IN AUGUST AND A 10.2 MILLION UNIT ANNUAL RATE, DOWN FROM A 1.7 MILLION RATE A YEAR EARLIER.

THIS MORNING THE HOUSE BANKING COMMITTEE ORDERED H.R. 10265 REPORTED TO THE HOUSE. AS AMENDED, THE BILL REQUIRES GAO TO AUDIT THE BOARD, THE RESERVE BANKS, THE FEDERAL OPEN MARKET COMMITTEE, AND THE FEDERAL ADVISORY COUNCIL AT LEAST ONCE EVERY THREE YEARS. EXEMPTED FROM THE AUDIT ARE EXAMINATION REPORTS OF MEMBER BANKS AND TRANSACTIONS CONDUCTED ON BEHALF OF FOREIGN CENTRAL BANKS. A CONDITIONAL EXEMPTION IS PROVIDED FOR "OPEN MARKET TRANSACTIONS AND DISCOUNT POLICY DETERMINED BY THE BOARD TO BE SENSITIVE" -- THAT IS, THEY ARE NOT TO BE AUDITED UNTIL ONE YEAR AFTER THE OPERATIONS INVOLVED ARE CONCLUDED. THE AUTHORITY FOR BRANCH BUILDINGS IS RAISED BY \$80 MILLION, TO \$140 MILLION. THE \$5 BILLION TREASURY DIRECT-BORROWING AUTHORITY IS EXTENDED TO JUNE 30, 1974. THE VOTE TO REPORT THE BILL WAS 21 YES, 8 NO, 4 PASS. THE REPORT IS TO BE FILED IN ONE WEEK.

THE LATEST MONETARY AGGREGATES DATA INDICATE FURTHER WEAKNESS IN M-1 AND M-2. FOR THE SEPTEMBER-OCTOBER PERIOD, BOTH MEASURES ARE ABOUT TWO PERCENTAGE POINTS BELOW THE LOW END OF THEIR RESPECTIVE RANGES. RPD'S ARE WELL BELOW THEIR RANGE, REFLECTING FURTHER WEAKNESS IN CD'S AND DEMAND DEPOSITS. THE TREASURY BOND AND BILL MARKETS WERE LITTLE CHANGED TODAY, ALTHOUGH THE 3-MONTH BILL RATE ROSE 10 BASIS POINTS TO 7.58 PER CENT. FEDERAL FUNDS TRADED IN A 10-3/4 TO 10-7/8 PER CENT RANGE, DESPITE ABOUT \$1.4 BILLION IN RESERVE-SUPPLYING OPERATIONS BY THE DESK. STOCK PRICES DECLINED IN ACTIVE TRADING WITH THE DOW JONES INDUSTRIALS FALLING 8/65 POINTS.

THE DOLLAR WAS GENERALLY FIRMER AGAINST MAJOR FOREIGN CURRENCIES. THE GERMAN MARK MOVED LOWER AFTER THE BUNDESBANK CREDIT COUNCIL ANNOUNCED RESERVE-ABSORBING MEASURES WHICH WERE NOT AS STRINGENT AS MARKET PARTICIPANTS HAD EXPECTED.
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RESERVE REQUIREMENT INCREASES AND REDUCTIONS IN DISCOUNT QUOTAS WERE DESIGNED TO ABSORB ONLY ABOUT HALF OF THE ROUGHLY DM 5 BILLION ADDED TO RESERVES TWO WEEKS AGO BY INTRA-EC EXCHANGE MARKET INTERVENTION.

THE NETHERLANDS BANK AGAIN PURCHASED A LARGE AMOUNT OF DOLLARS ON A SWAP BASIS FROM DUTCH COMMERCIAL BANKS IN A

CONTINUING EFFORT TO EASE CONDITIONS IN THE DOMESTIC MONEY MARKET. THE DUTCH CENTRAL BANK IS PLACING THE DOLLAR FUNDS IN CORRESPONDING MATURITY CD'S WITH NEW YORK BANKS. THE BANK OF JAPAN SOLD \$63 MILLION TODAY AS THE DEMAND FOR DOLLARS IN THE TOKYO MARKET REMAINED VERY STRONG. THE SYSTEM MADE SOME FURTHER PURCHASES OF MARKS AND BELGIAN FRANCS TODAY.

EURO-DOLLAR INTEREST RATES WERE MOSTLY FIRMER, MAINLY REFLECTING TECHNICAL FACTORS. GOLD DECLINED 15 CENTS TO \$99.00. PORTER

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